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Realizing the impact
of organization design
Ten questions for business leaders

Realizing the impact of organization design

To the Executive Committee

Well done to you all on a very successful business transformation programme. While it is fresh in our collective memories let us reflect on the lessons learned from our professional partners Deloitte, and our own experience of this journey.

When we set out to transform our organization, we knew the stakes going in: A change this big could be the stroke that defined our legacy as leaders of this business.

Done well, organization design can make a significant improvement in performance, because it amplifies the alignment of the organization to its strategy and business model. It can improve speed to market and customer experience improvement. And it can go a long way toward trimming costs.

Organization design is a complex undertaking with no guarantees. Before we embarked on the project we reflected on research from Deloitte which they conducted on 130 organization design projects from their global client base in the United States, Canada, United Kingdom, Netherlands, Belgium, Southern Africa and Southeast Asia. Fewer than 20 percent of these projects exceeded the original business case values that were used to justify them in the first place. And that's not all.
- Most organization design projects proceed to the design phase with very limited analytical work. The analytics that do take place are often based on incomplete or very high-level data sets.
- Most design projects don't go far enough in addressing real organizational or structural issues.
- In more than 60 percent of cases, these important projects are left up to middle management to design and implement. There's too little sponsorship, oversight or involvement from senior executives.
- Often, businesses embark on organization design projects in search of benefits they can't achieve through organization design alone—or even at all.

So why did we succeed in the tough journey we undertook with the odds stacked against us? I think that our approach using three simple steps was the key:

Decide: Is organization design the right solution for the business?
Design: The right future organization is not based on structures alone.
Deliver: Realize the planned benefits and value through thorough implementation.

To a significant degree, the way this project turned out was up to us as leaders. Case after real-world case shows the outcome of organization design hinges on a sponsor who has the energy to drive necessary decisions, the profile and personal characteristics to build commitment in the organization, and the stamina to stay the course. In addition, I think that having a strong team of independent advisors helping us throughout the journey, sharing optimal design options seen in other organisations, helped us avoid implementation pitfalls and facilitated the process against our tight timelines.

And time is of the essence. Anything you can do to accelerate the process means less money spent implementing a change, and more money saved (or made) operating under a better model.

I know you have all been part of the journey, but let me remind you all of why we succeeded: by the laser focus you applied on the ten key questions we asked in those three crucial stages of our organization design programme—decide, design, and deliver. These questions saved us all time, money, and effort. And they helped us succeed where many have failed before.

Yours sincerely,
CEO

Decide: Is organization design the right solution for the business?

Sometimes changing an organization design can be the wrong approach to address current performance issues. It is vital to be very clear on why you undertake a redesign. Can you clearly articulate how each planned change will relate to the way your organization creates value?

The majority of organization design initiatives start out with the best of intentions, but few live up to expectations. What they do provide is disruption, as people and positions shuffle for very little gain in real value. Restructuring efforts like that can undermine faith in the wisdom of an organization's leadership, which actually erodes value and team coherence.

The first three of our ten questions are the ones leaders should ask before deciding whether to conduct an organization design project.

1. Have you really unpacked the intent behind redesigning your organization?

A variety of internal and external influences can trigger organization design initiatives. An executive may just have the intuition that something is amiss. Or the market or regulatory environment can deliver an unmistakable imperative for change. It is essential to identify and express the true purpose and intent of the change in the context of the organization's wider strategy. Only this perspective can position the design change in a way that supports broader business goals. Is organization design the root cause of the symptoms you wish to address? Or might alternative interventions achieve a similar result with less cost or risk? For example, if the goal is to reduce cost, other actions such as asset optimization, a facility relocation, or renegotiation of agreements with third party suppliers might be an easier, faster, and less disruptive course.

2. Do you understand where value is created and how to enhance it within your organization?

This question contains many others. Which part of the organization contributes most to the realization of our strategy? Which processes are critical? Where are our critical talents? Too often, people see organization design as the way to fix many business problems. But the complexity of the remedy may be larger than they imagine, and the value it unlocks may be smaller. So be realistic about goals—and unintended consequences. For example, cutting costs in back office areas may increase the administrative burden on front office staff and downgrade the customer experience, which ultimately destroys value.

3. Do you have a clearly articulated strategy and business model?

Too many strategies try to accommodate everyone. That leads to vague statements and rosy promises. An organization design that works needs a clear strategy that helps guide specific decisions. Leaders must be clear on the business model they desire, so organization design can align processes, structures and roles with their strategy. Qualitative or intuitive justifications for change can feel powerful, but they aren't enough. A fact-based approach will illustrate any misalignment between the current and desired organizational state and lends substance to the case for change. It's also vital not to focus so much on long-term strategic ambitions that you risk making near-term implementation more difficult. It is often easier to focus on interim states that are easier to understand and achieve—and, where possible, to build a degree of flexibility that helps the organization deal with uncertainty. This is particularly important in organization with a high likelihood of divestment or M&A activity.

Case example

A mining company board advised leadership to transform the organization because the holding group that owned it was pursuing a rapid growth strategy to "double the business by 2020." Following a deep analytical and strategic exploration with the senior executive team, this was the plan:

1. Aggressive and inorganic growth through joint ventures
2. More efficient deployment of scarce resources
3. Greater standardisation in geographically dispersed operating sites

It was clear that splitting the company's focus between the "business of tomorrow" (strategic objective 1) and the "business of today" (strategic objectives 2 and 3)" would take a new approach.

The organization design that emerged was well placed to meet the challenges posed by the group without compromising current operations. Because the company made the up-front investment to clearly defining the strategic direction, the organization design process had had widespread buy in from senior leadership and was fully implemented within six months.

Design: The right future organization is not based on structures alone

If organization design is the answer, there is a right and wrong way to approach it. The scope of an intervention should extend to elements beyond the organizational structure itself. Leaders should also reflect on the ways changes in one part of an organization can affect the overall system. Being clear on how significant the change will be and how decisions will be made can significantly speed up project delivery.

Reorganizations are complex undertakings, all the more so because of how rapidly competitive dynamics can change. Supplier, employee, and customer webs are becoming more global. Disruptive technologies, multigenerational talent, and heightened regulation are introducing new challenges. Social media and the dynamics of multi-generational talent are changing the ways firms communicate, both internally and externally. Amid all this change, executives are finding their own organizations hard to navigate.

To deal with these complexities and avoid common pitfalls, executives who plan to undertake organization redesign should ask themselves the next sequence from our list of ten questions.

4. How ambitious do you want to be, and how far are you prepared to go, with organization design?

Once an organization's leaders define the strategic imperatives that underpin their decision to pursue reorganization, they should consider the amount of change they are comfortable introducing. That depends in part on the documented core capabilities that support the change strategy. How ambitious can the future vision be? Which areas need immediate intervention, and what changes can be deferred? In the end, design change is about managed disruption—driving for ambitious change in areas that promise disproportional returns, while saving energy in other areas that can benefit from more time and deliberation. Every organization answers these questions differently. One company might begin with radical shifts to new service delivery models in back-office functions. Another might start at the source with core operational or "business" functions.

New organizational forms are being introduced on a regular basis, but that doesn't mean the newest and shiniest thing is the right one for you. Whether these new organizational models or more traditional frameworks are appropriate for your business boils down to your strategy and how ambitious you are in your goals.

5. Are you clear on the scope, approach, tools, and the pace of the project?

Organizational design is about more than structure charts. Getting from the status quo to the desired end state requires a deliberate, carefully sequenced design plan, and that starts with crystal clarity on scope. The senior leadership team should have open discussions about the breadth (some functions or all functions?) and depth (how far down to design?). For example, some organizations prefer analytics, benchmarking, and peer practices, while others want an inside-out view that builds from internal consultation and consensus. Similarly some organizations prefer a highly automated design experience with interactive visualization tools, while others look for simple one-on-one advice. Regardless of the methods and approaches selected, a carefully designed plan that integrates milestones, dependencies, and broader transformation objectives is essential. Finally, the speed of the project creates a trade-off: Going too fast can mean too little engagement and consequent downstream challenges. Going too slow risks too much disruption.

6. How will you know if your design is the right one?
Traditional organization design approaches are heavily process-based with common steps:
- Establish design principles
- Define future capabilities
- Identify gaps between current and future
- Explore new structures and reporting line scenarios
- Transition workforce

But how do you know you have it right? This is where art meets science. Combining analytical methods with visualization tools can point more precisely to the places where change needs to occur—a new role, an enhanced capability, or a revised set of decision rights, for example. Using visualization tools to represent quantitative data, such as operational, financial, HR, or market metrics, can increase the likelihood of making the right structural choices. In the end, a good organization structure can't guarantee improved performance. But in the words of Peter Drucker, "The wrong structure is a guarantee of non-performance." It pays to get it right.

Case example
A large petroleum company had announced a change in executive leadership with a new CEO. Through the establishment of a Business Improvement Initiative (BII) Team, the company initiated a significant enterprise cost reduction program. Driven by dramatic cost pressures and a narrowing revenue stream across the oil and gas industry, the BII team identified headcount reduction as an early cost savings win and set up a program to restructure and facilitate the organization design, employee selection, and transition management phases.

As part of the project initiation, leaders designed and customized discrete process steps to facilitate the organization design, selection, and transition processes. A data-driven solution set was configured and deployed to support the decision and selection process, which provided transparent, consistent, and reusable approach and support systems for workforce reduction and alignment efforts. The data set for analysis included the recording of employee selection decisions and the associated costs and savings of those decisions. The result was a data-driven organization design and modeling solution that matched design and staffing to business case reduction targets.

Deliver: Realize the planned benefits and value through thorough implementation

Perhaps the most difficult part of an organization design job is implementation. The steps you carry from paper into real life will affect the ways people work every day. They will realign the personal connections people value. That's hard enough when everyone is on the same page—but getting people motivated to change, or even just getting their attention, can make it even harder. Implementation is a journey, not an event. It takes deliberate management.

Working through the "decide" and "design" stages of an organization change requires significant effort, but the real heavy lifting comes when it's time to deliver the promised benefits. Organizations are made of flesh-and-blood people who have different ideas, various incentives to align, and varied reserves of the time and attention it takes to engage with a new design and understand what it means.

To make the process work as well in practice as it does in theory, start with more of our checklist questions.

7. Is the organization prepared for potential shifts and disruptions?

Changing the organization can be a significant disruption. Accountabilities change, people move or leave, and new capabilities emerge. The effectiveness of an organizational change can lie in how well you prepare everyone for the transition. Act early to help people understand the impact. If you give people and teams enough time at the beginning to prepare the organization for change, it can smooth implementation issues later.

8. Have you learned from past attempts to implement organizational change?

Companies are better at initiating change than they are at executing it. A common phenomenon is that enthusiasm swells upon the announcement of an organizational restructuring then drops when excitement turns into work. This makes benefits elusive for three reasons.

- Good design teams can think creatively and break out of established paradigms, but this skill seldom translates to execution. In other words, great designers are rarely great builders, and vice versa.

- Competing priorities and all the moving parts that go into daily business simply get in the way of elegant designs and ultimately derail them. Maintaining the integrity of a design through the execution phase requires vigilance: Are all those daily, heat-of-the-moment decisions aligned with the master plan? Executives like the designing part, but they often delegate implementation to lower levels, and that makes it harder to preserve a grand vision.

- Just as design means much more than structure, capability-building means much more than switching employee reporting lines. Designing an organization with new capabilities is where initiatives like these ultimately create value.

9. How are you going to balance collective accountability, maintain momentum and maintain integrity of the design?

Getting to the decision point regarding an organizational change is the last step in the job, but it is a critical juncture. It's important to keep energy and commitment levels high while approvals are pending, design teams morph into implementation teams, and external advisors disappear. This is another way advanced planning can help organizations avoid common pitfalls and enjoy all the planned benefits of the change

Case example

A 100-year-old lending institution decided to redesign its business and operating models in an attempt to ward off the threat of bankruptcy. The program involved extensive redesign of the core banking divisions and retail branches.

In order to balance accountability, integrity, and implement the design, the CEO and the top eight executives led a steering committee that remained active throughout the two-year project. This committee had authority to approve all design decisions and implementation accountabilities. Once the group endorsed each step, it was allocated to an accountable executive and management team for implementation.

The result of this approach was full implementation of the board-endorsed design within 12 months. The new, financially sustainable business has shown double-digit growth in both the size of its loan book and overall profitability.

Finally: The most critical factor in organizational change is leadership

When an organizational change project has a clear champion with the power to act, it's much more likely to reach its objectives. A wealth of experience underscores this correlation between leadership's commitment to the proposed change and the achievement of planned outcomes and benefits. That leads to the last of the ten critical questions.

10. Do you have leaders with the capability, energy, and stamina to lead the design and embed results?

At the executive level, leaders sponsor and drive organizational change. At the program level, other leaders facilitate the design and bring it into reality. At both levels, organization design requires deep commitment and intense participation. This isn't only because leaders are the ones with authority. They're also the ones with strategic insight and emotional intelligence. When staff and stakeholders embark on the journey from the old to the new, it's easier when they feel they have someone to follow.

These undertakings can be long and challenging. They demand significant energy from key people. And they can test longstanding relationships. Leading an organization through the process of becoming something else takes capability, stamina, and a willingness to stay the course.
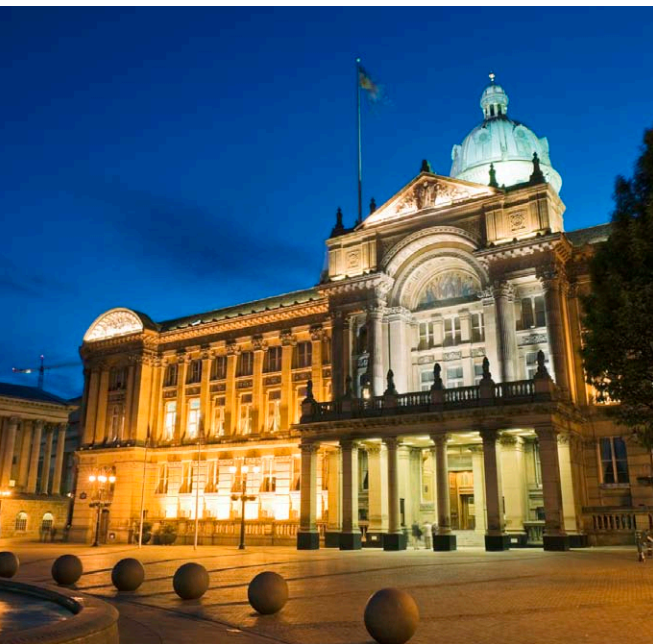
Case example

A large public-sector organization was undergoing a difficult organization transition as the result of a merger. There was extensive duplication of effort, senior leadership was in conflict, and there was no authoritative vision of the right way forward.

The incumbent CEO spent limited time engaging key stakeholders, did not discuss options fully with the board, and did not invest working time with the design team. Support for the design process consequently dropped to dangerous levels. Eventually, the chief executive resigned.

The incoming CEO took a contrasting approach. She appointed some of the organization's best people to the design team and empowered them to engage across the organization to fully understand all points of view. The new CEO engaged with the design team herself, and led comprehensive and high-quality discussions at a board level. Her energy and commitment levels led to significant increases in engagement and buy-in, and soon all but a handful of senior stakeholders supported the design. In this environment, implementation was also more effective and robust. The result was improved organizational outcomes for many years after the change initiative ended.

What we've learned is that organizational design really is a company's conversation with itself. What are you trying to achieve? What stands in the way? How can you get from here to there? People can't improve without honest self-awareness and a plan. Neither can organizations.

Creating and implementing a new design can be a significant organizational accelerator in complex business environments. But there are no guarantees in merely committing to change. It takes precision and careful emphasis on all three phases—*decide, design*, and *deliver*. Asking the right questions at each phase—and acting on the response—can save time and effort. And it's the only way to link the effort you're expending with the results you want.

Decide
based on analytics-based insights.

Design
organization solutions with precision.

Deliver
business value with lasting impact.

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